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NATIONAL INTELLIGENCE DAILY CABLE

Saturday December 11, 1976

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National Intelligence Daily Cable for Saturday December 11, 1976.

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The NID Cable is for the purpose of informing senior US officials.

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ITALY: The Communists and Labor

25X1 [] Negotiations involving Italy's unions, the government, and industry are testing the Communist Party's ability to deliver labor cooperation in reducing the country's soaring wage costs.

25X1 [] The wage talks are being held at the behest of Prime Minister Andreotti, who has given labor and industry until the end of the year to agree on a way to reduce labor costs. Andreotti's austerity program--a series of tax increases and public utility rate hikes approved by parliament last month--will not be effective unless labor costs are also reduced substantially.

25X1 [] The Prime Minister has secured parliamentary approval for a temporary and partial freeze on the wages of the higher paid workers, but he has hesitated to submit a comprehensive wage proposal to the legislature because of the political sensitivity of the subject.

25X1 [] The unions have shown a willingness to reduce wage costs through indirect means--such as limiting absenteeism--but have resisted proposals to attack the problem directly through changes in the country's wage escalator mechanism. Under this system, automatic quarterly wage hikes are granted in response to increases in the cost-of-living index. The unions have termed the escalator "untouchable," but the government and potential foreign creditors, such as the EC and the International Monetary Fund, believe a basic modification of the escalator is essential.

25X1 [] Revision of the escalator appears to depend mainly on whether the Communists--who dominate the largest of Italy's three major labor confederations--can bring a majority of the unions along on the issue. The Communists argue that the escalator should not be considered sacrosanct, but they have had trouble selling even their own unions on that position; according to one party official, the differences between Communist Party and union leaders are greater than at any time in recent years.

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[] The head of the Communist-dominated labor confederation, Luciano Lama, has reportedly been persuaded by the party's economic commission, however, to push within the labor movement for limited changes in the wage mechanism.

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[] The concessions being advocated by Lama would have a positive, but moderate, influence in reducing the inflationary impact of the wage indexation system. For example, by excluding products with publicly controlled prices from the escalator system, the government's recent measures to stimulate revenue by raising such prices will prove more effective in dampening consumer demand.

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[] Lama seems certain to win support from some leaders of the Christian Democratic labor confederation--the country's second largest--but he will encounter stiff resistance from Socialist labor officials. The Socialists, who control Italy's third largest labor confederation and form a sizable minority in the Communist-dominated confederation, are attempting to secure a stronger base in labor by exploiting worker misgivings about the Communists' policies.

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[] While the Socialists do not appear to have made much progress, Communist chief Berlinguer is obviously taking seriously the uneasiness among party supporters over cooperation with the government. Berlinguer--probably with an eye to the party's central committee meeting on Monday--called this week for an immediate and more precise statement of Communist middle-range objectives. He appears intent on formulating a series of specific social and economic proposals and forcing a discussion of them with the Christian Democrats.

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[] The Communist leader apparently hopes that such a dialogue would replace formal consultations on government policy that he proposed earlier but which the Christian Democrats rejected. Berlinguer seems to be signaling the Christian Democrats--who are holding a major strategy session this weekend--that failure to respond to his new approach could result in a tougher Communist posture toward the government.

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PORTUGAL: Elections

- 25X1 [] The results of the local elections tomorrow in Portugal, touted in some quarters as a referendum on Prime Minister Soares' Socialist minority government, are not likely to show a significant shift in the relative strengths of the parties.
- 25X1 [] The vote, the final step in the establishment of a democratic structure in Portugal, will fill some 50,000 positions in parish and municipal governing bodies. Nationwide results will be tabulated in a variety of ways, and each party will probably be able to find figures that it can interpret in a favorable light.
- 25X1 [] The two-week campaign has aroused little voter interest, and the turnout is likely to be lower than it was in the three elections held during the past 20 months. The lack of interest is due in part to increasing public apathy toward politics, but even more to the shortage of funds available to most of the contending parties and the prohibition of radio and television campaigning.
- 25X1 [] The Socialists will probably again receive around 35 percent of the vote, as they did in the legislative assembly election last spring. Disenchantment with the Socialists' temporizing, particularly in the economic field, is growing, but the party can probably use its control of government to offset any defections.
- 25X1 [] The Socialists benefit from widespread media coverage that comes as a by-product of their control of the government. Also, the election law was drafted by the Socialists to work in their favor. Local offices will be filled on a proportional basis, thus benefiting the Socialists who are relatively strong throughout the country.
- 25X1 [] Perhaps the most significant contest is the one between the two parties to the right of the Socialists. Both have stepped up their criticism of the government in an effort to attract disgruntled Socialists. The conservative Social Democratic Center, however, has been more vituperative than the

Social Democratic Party, which apparently thinks it may be asked to form a coalition with the Socialists. The showings of the two parties may provide some indication of the extent to which a vigorous antigovernment line is a good campaign tactic.

25X1 [] The Communists will probably score the largest gains, regaining many of the votes lost to the far left last summer when the Communist presidential candidate polled less than 8 percent of the vote. The Communists are still likely to run fourth, however, with around 15 percent of the vote. [] 25X1

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VENEZUELA-USSR-CUBA: Oil

25X1 [] The recently announced petroleum agreement between Venezuela and the USSR is not likely to be implemented soon, if at all.

25X1 [] The US embassy in Moscow suggests that the agreement may not be as firm as President Perez and other high Venezuelan officials have publicly asserted. A Soviet foreign trade official commented last week that the agreement requires "substantial additional consideration" by the Venezuelan and Cuban governments.

25X1 [] According to a Venezuelan embassy official in Moscow, the accord was "only a rather vague statement of intention to begin negotiations on the subject." He estimated that if all the obstacles could be overcome, final agreement would still be at least one to two years away.

25X1 [] Nevertheless, Perez has heavily committed his prestige to the deal, and this constitutes its best chance for implementation. In a nationally televised "fireside chat" following his return from Europe, Perez devoted much of his talk to defending his trip to Moscow and the Cuban oil deal. Perez vigorously emphasized the agreement's economic and political benefits.

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[redacted] Perez' presentation was an attempt to convince his audience that in "concluding" the oil deal, he had Venezuela's interests in mind. He was also obviously trying to bolster support for his initiatives within his own party and the Congress. While his presentation undoubtedly appealed to many Venezuelans, his defense of the oil agreement is unlikely to stand up under close examination.

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[redacted] The agreement would substitute the Cuban market for part of the West European market--primarily Spain--and would not be an important diversification of Venezuela's markets. Consequently Perez may have difficulty convincing Congress to ratify the deal. [redacted]

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